

# **Lender Narrative**

## **Section 232, New Construction**

**Lender Narrative –  
New Construction  
Section 232 – 2 Stage, Initial  
Firm Submission**

**U.S. Department of Housing  
and Urban Development  
Office of Healthcare Programs**

**OMB Approval No. 9999-9999  
(exp. mm/dd/yyyy)**

Public reporting burden for this collection of information is estimated to average 63 hours. This includes the time for collecting, reviewing, and reporting the data. The information is being collected to obtain the supportive documentation which must be submitted to HUD for approval, and is necessary to ensure that viable projects are developed and maintained. The Department will use this information to determine if properties meet HUD requirements with respect to development, operation and/or asset management, as well as ensuring the continued marketability of the properties. Response to this request for information is required in order to receive the benefits to be derived. This agency may not collect this information, and you are not required to complete this form unless it displays a currently valid OMB control number. No confidentiality is assured.

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### **Firm Commitment - Initial Submission**

~~(March 5, 2010 – supersedes previous versions)~~

#### **Instructions:**

The narrative is a critical document to the Lean Underwriting process. Each section of the narrative and all questions need to be completed and answered. If the lender's underwriter disagrees and modifies any third party report conclusions, provide sufficient detail to justify. The narrative should identify the strengths and weaknesses of the transactions and demonstrate how the weaknesses are mitigated by the underwriting.

- **CHARTS:** The charts contained in this document have been created with versatility in mind; however they will not be able to accommodate all situations. For this reason, you are allowed to alter the charts as the situation demands. Be sure to state how you have altered the charts along with your justification. Try to include all the information the form calls for. Charts that include **blue** text indicate fields that should be modified by the lender as the situation dictates.
- **HUD-92264 - HCF:** The conclusions made here in the Lender Narrative should flow into the 92264. Per the Email Blast dated March 5, 2010, the only exception to this is Sections J, K, L and M of the 92264, which should contain the appraiser's conclusions. One of the biggest challenges Lenders may face is filling out the expense portion. The expense categories in the Lender Narrative do not match those in Section F of the 92264. For example, the Lender Narrative does not require a breakdown of salaries. For this reason, lenders are not required to complete Section D of the 92264. The new categories of the Lender Narrative were an attempt to show the data in a format that is more conventional in today's market. We do not expect Lenders to spend a great deal of time transposing the expenses, but the totals should correspond to their conclusions. All new construction, substantial rehabilitation, and Section 241a's should have a completed Section H. The 92264 form should be signed by the lender

underwriter, not the appraiser

- ***Not Applicable:*** If a section is not applicable, state so in that section and provide a reason. Do not delete sections that are not applicable. HUD checks the narrative to make sure that all sections are provided. If a major section is not applicable, add “– Not Applicable” to the header and provide a narrative section giving the reason. For instance,

Parent of the Operator – Not Applicable  
This section is not applicable because there is no operator.

The rest of the subsections under the inapplicable section can then be deleted.

- In addition to submitting the pdf version of the Lender Narrative to HUD, please submit an electronic Word version as well.
- It is helpful if the Lender references the page # from third party reports when referencing additional information or tables, as applicable, in lieu of reiterating or copying the identical information into the narrative.

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FHA Number:  
Project Name:  
Project Address:  
City / State / Zip:  
County:

### Unit Breakdown:

Cost Breakdown			
Room Type	Care Type	Beds	Units
e.g. Private	e.g. Assisted Living	0	0
e.g. Semi-Private	e.g. Skilled Nursing	0	0
e.g. 3 Bed Ward	e.g. Board & Care	0	0
e.g. 4 Bed Ward	e.g. Dementia Care	0	0
	e.g. Independent	0	0
<b>Totals:</b>		0	0

<b>Mortgage Amount:</b> \$ _____		DSCR (with MIP):	Loan to HUD Cost:		
	LTV: _____ %	Term: _____ months	Interest Rate: _____ %		
Equity without IOD/WC:     \$ _____	Principal & Interest:     \$ _____ per month				
Equity with IOD/WC:     \$ _____					
		Value per bed(SNF)/Unit (ALF):	\$ _____		
<b>Underwritten Value:</b> \$ _____	Cap Rate:     %				
Effective Gross Income:     \$ _____	Occupancy Rate:     %				
Expenses & Repl. Res.:     \$ _____	Expense Ratio:     %				
Net Operating Income:     \$ _____	Expense per bed(SNF)/Unit (ALF):     \$ _____				
<div style="display: flex; justify-content: space-between;"> <div style="width: 60%;">           Gross Income: _____            Effective Gross Income: _____            Expenses &amp; Repl. Res.: _____            Net Operating Income: _____         </div> <div style="width: 35%;">           Occupancy Rate: _____            Expense Ratio: _____         </div> </div>					
<hr/> <div style="display: flex; justify-content: space-between;"> <div style="width: 60%;">           Construction Budget:     _____         </div> <div style="width: 35%;"> <input type="checkbox"/> Off-Sites     <input type="checkbox"/> Demolition     <input type="checkbox"/> Lump Sum         </div> </div>					
Architectural Budget:     _____ <input type="checkbox"/> Multiply AIA <a href="#">B181s Agreements</a>					
Operating Deficit:     _____					

**Lender Narrative**

**Page**

**form HUD-9005-OHP (mm/dd/yyyy)**

Previous versions obsolete

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Special Escrows, Etc: \_\_\_\_\_ <<description of other escrows/reserves>>

Mortgagor: <<Legal Name>>  
Principal(s): <<List all principals of Mortgagor. Add additional lines as needed.>>  
Operator: <<Legal Name>> ☐ Operating Lease  
Principal(s): <<List all principals of Operator. Add additional lines as needed.>>  
Parent of the Operator: <<Legal Name>>  
Management Agent: <<Legal Name>>

Third Party Reports provided:

<input type="checkbox"/> Market Study	Conclusion is: <input type="checkbox"/> Accepted as is. <input type="checkbox"/> Modified by underwriter.
<input type="checkbox"/> Appraisal	Conclusion is: <input type="checkbox"/> Accepted as is. <input type="checkbox"/> Modified by underwriter.
<input type="checkbox"/> Phase I Environmental	Conclusion is: <input type="checkbox"/> Accepted as is. <input type="checkbox"/> Modified by underwriter.

### Labor Relations

Wage Decision Type: ☐ Residential ☐ Building (Commercial)  
Wage Decision Number: \_\_\_\_\_ Mod #: \_\_\_\_\_  
Wage Decision Modification Date: \_\_\_\_\_  
# of Buildings: \_\_\_\_\_ # of Units \_\_\_\_\_  
# of Stories: \_\_\_\_\_ # of self-contained units<sup>1</sup>: \_\_\_\_\_

### Lenders Pre-Construction Conference Coordinator Information

Name: \_\_\_\_\_  
Email: \_\_\_\_\_  
Phone: \_\_\_\_\_  
Mailing Address: \_\_\_\_\_

### General Overview

<<Provide narrative of rationale for selection of Wage Decision specified>>

### Sensitivity Analysis

<<Provide a Sensitivity Analysis. At a minimum, the analysis is to answer the following questions:

- If everything else under consideration remains the same (ceteris paribus), then
- (a) Occupancy rate could decrease by \_\_\_\_% and still provide 1.0 debt coverage.
  - (b) The NOI could drop by \$\_\_\_\_( \_\_\_\_%) and still provide a 1.0 debt coverage.

<sup>1</sup> Self-contained means that the units contain both a kitchen/kitchenette and a bathroom. This criterion, in addition to the number of stories, affects whether the construction type will be "residential" or "building".

(c) What sensitivities exist in the proposed census mix?  
>>

### **Lender Loan Committee**

<<Provide brief narrative summary of loan committee, including: date held; information provided; any pertinent requirements / conditions of the loan committee to gain the committee's recommendation>>.

## **Program Eligibility**

### **Commercial Space / Income**

<<Affirmative statement along the lines of: "The project has no qualified commercial space or income; therefore it does not exceed the program limitations of 10 percent of the gross floor area of the project and 15 percent of the gross income.">><<If facility has commercial space, provide calculations for space and for income, as underwritten>>

### **Founder's Fees / Life Care Fees**

<<Affirmative statement along the lines of: "The facility will not charge 'founder's fees', 'life care fees', or other similar charges associated with 'buy-in' facilities.">>

### **Bathrooms**

<<Affirmative statement along the lines of: "The facility design meets the minimum requirement as no more than four residents share a full bathroom and all access to the qualifying bathrooms from the resident bedrooms is not through public corridors or areas.">>

### **Independent Units**

<<Affirmative statement along the lines of: "The facility has {X} independent units. This represents {Y} percent of the total, which is under the 25 percent guideline. The independent units are not licensed.">>

### **Licensing / Certificate of Need / Keys Amendment**

<<Affirmative statement along the lines of: "The facility is to be licensed by the State of {State}'s Department of Health and Welfare as a {Type of Facility} for {X} beds. The license is to be issued to {Name of Entity on License}. {include statement and dates describing submission of license application and drawings}. Describe the licensing process.">>

<<Affirmative statement along the lines of: "There is no Certificate of Need (CON) requirement in {State} for {Type of Facility}." – OR – "A Certificate of Need (CON), dated {XXX} was issued by the State of {State} authorizing XX beds... and is current through (date)">> <<FOR SKILLED NURSING, where the state doesn't require a CON - discuss the required independent study conducted by the state or commissioned by the state of market need and feasibility. Include in the discussion the number of beds and date through which it is current>>

<<Affirmative statement along the lines of: "The State of {State} has certified its compliance with Section 1616(e) of the Social Security Act (Keys Amendment).">>

## Bankruptcy

<<Affirmative statement along the lines of: “Neither the Mortgagor nor the Operator nor any of their affiliates, renamed, or reformulated companies, have filed for, are in, or have emerged from bankruptcy within the last five (5) years.”>>

## Continuous Protective Oversight and Assistance

<<Affirmative statement along the lines of: “The facility will provide continuous protective oversight and the minimum assistance required to qualify under the Section 232 mortgage insurance program.”>>

## Waivers

<<Identify any waivers required for proposed financing. Identify specific provisions to be waived and justification for the waiver>>

## Special Underwriting Considerations

### Key Questions

	<u>Yes</u>	<u>No</u>
1. Is the Mortgagor a Real Estate Investment Trust (REIT)?	_____	_____
2. Is the Mortgagor a nonprofit or public entity AND are the nonprofit mortgage criteria utilized in the underwriting? (If yes, Operator must also be a nonprofit entity)	_____	_____
3. Was an Underwriter Trainee involved in underwriting this transaction?	_____	_____
4. Is a mortgage broker involved in this transaction?	_____	_____
5. Does the underwriting include income from Adult Day Care?	_____	_____
6. Will there be a ground lease?	_____	_____
7. Is Accounts Receivable Financing involved with this transaction or the operator or the parent of the operator?	_____	_____
8. Are there any Professional Liability Insurance issues that require special consideration or HQ review?	_____	_____
9. Are any tax credits involved in this transaction?	_____	_____
10. Are any secondary funding sources involved in this transaction?	_____	_____
11. Is any real estate tax abatement or exemption included in the underwriting assumptions?	_____	_____
12. Are there any special escrows or reserves proposed for this transaction?	_____	_____
13. Are there any wetlands on the subject property?	_____	_____
14. Is the subject property located in a 100- or 500-year flood hazard?	_____	_____
15. Is the subject site suspected to be of any historical significance?	_____	_____
16. Other than the aforementioned, are there any other environmental issues identified by the Phase I or lender’s due diligence?	_____	_____
17. Other than the aforementioned questions, waivers and program eligibility requirements, are there any other issues that require special or a-typical underwriting consideration?	_____	_____
18. Do you, as the underwriter, recommend or request any HUD technical reviews of issues, exhibits, or third party reports related to this transaction?	_____	_____

If you answer “yes” to any of the above questions, please address below. Insert “N/A” in the No column if not applicable.

<<For each “YES” answer above, provide a narrative discussion regarding the topic.

Examples Below:

#### **Item 14 - Real Estate Tax Abatement**

The borrower will be receiving an abatement of real estate taxes for at least two years after opening the facility. The abatement is to be a minimum of 70 percent of the taxes due. Because the specific nature and length of the tax abatement is not known at this time, we have not assumed the abatement for valuation or debt service purposes. The underwriter has, however, excluded 70 percent of the underwritten taxes from the initial operating deficit calculation. Therefore, a condition requiring evidence of the abatement from the local taxing authority is recommended.

#### **Item 16 - Wetland Area**

A wetland associated with a tributary of Spring Creek was identified on the National Wetland Inventory Map. The wetland affects the northwest corner of the property. A nationwide permit application was submitted to the Army Corps of Engineers for approval. The Army Corp of Engineers has issued a letter February 21, 2007, stating that proposed project does not require a Section 404 permit. No further action is warranted. A copy of the letter is in the application.

#### **Item 20 - Existing Structures on Site**

A vacant one-story house and two storage sheds currently occupy the site. The current owner of the land will be relocating these structures prior to initial closing, at no cost to the mortgagor. Therefore, no off-site or demolition costs are anticipated.

Because of the existing structures, we have addressed potential asbestos and lead-based paint concerns. A qualified assessor evaluated the house and outbuildings for asbestos containing materials. No asbestos containing materials were identified. A visual inspection by the environmental assessor also indicated that there is no evidence of peeling paint and no suspect lead-based paint containing surfaces were identified. Given the condition of the paint, the fact that the buildings are not occupied, and the fact that they will be relocated prior to the start of construction, the underwriter and the assessor conclude that no further action is warranted.

#### **Item 20 - Pre-Development Management Fees**

The underwriting includes \$75,000 in organizational costs for pre-development management services. The pre-development management contracted charges are for services to be provided by XYZ Housing Consultants, a firm affiliated with the proposed management agent. The scope of the services include preparing, updating and reviewing lease-up and operational budgets; budgeting, coordinating, and planning for appropriate furniture, fixtures, and equipment; coordination and selection of appropriate business systems (e.g., emergency call, phone and computer systems); occupancy development; licensing submissions and plans; staff hiring and

training; and, development of operations and systems manuals for major functions (administration, nursing, marketing, dietary, etc.).

According to a Special Issue Brief published by the American Senior Housing Association (ASHA) for Fall 2006, entitled “Management Companies & Fees: The Changing Dynamics Between Ownership & Management”, management fees for senior care facilities are now typically broken into three types of charges: (1) Pre-Opening Services; (2) Lease-Up Services; and, (3) Stabilized Services. According to the report, during the pre-opening services, management or consulting charges range between \$5,000 and \$10,000 per month.

The construction period is currently planned to be 13-months. Including four months prior to the start of construction (as the firm is already providing services), the pre-development management charges of \$75,000 equate to \$4,412 per month. According to the ASHA publication, the proposed fee is well within reason. The underwriter has also discussed this type of arrangement with other reputable senior housing management firms and has determined that the charges appear reasonable and customary. Based on these findings, the underwriter has included the pre-development management charges as eligible organizational costs.

## Identities-of-Interest

	<u>Yes</u>	<u>No</u>
1. Have you, as the Lender, identified any identities of interest on your certification?	_____	_____
2. Does the Mortgagor’s certification indicate any identities of interest?	_____	_____
3. Do any of the certifications provided by Principals of the Mortgagor identify any identities of interest?	_____	_____
4. Does the Operator’s certification indicate any identities of interest? (if applicable)	_____	_____
5. Does the Management Agent’s certification indicate any identities of interest? (if applicable)	_____	_____
6. <a href="#">Does the lender know that, or have any reason to believe, that any of the assertions in the other Consolidated Certifications submitted herewith, are inaccurate or incomplete?</a>	_____	_____

If you answer “yes” to any of the above questions, please address below.

<<For each “YES” answer above, provide a narrative discussion regarding the topic. If not applicable, indicate “NA” in the No column.

Example:

**Mortgagor and Operator:** The Mortgagor and Operator are related parties – John Doe has ownership in both entities. No other identities of interest are disclosed. >>

## Risk Factors

### Key Questions

	<u>Yes</u>	<u>No</u>
1. If the project is proposing new construction of assisted living units, is the proposed mortgage higher than 75 percent (80% on non-profit) of the underwriter’s concluded value?	_____	_____
2. If the project is proposing new construction of skilled nursing or independent living	_____	_____

	<u>Yes</u>	<u>No</u>
units, is the proposed mortgage higher than 80 percent (85% on non-profit) of the underwriter's concluded value?	_____	_____
3. Is the debt service coverage of the loan less than 1.45?	_____	_____

If you answer "yes" to any of the above questions, please briefly address below.

<<For each "YES" answer above, provide a narrative discussion regarding the topic. See below program guidance for more discussion of these issues.

**Program Guidance (issued in Lender Email Blast on November 20, 2009):**

**Our underwriting staff has received many proposals recently where the LTV did not achieve current LEAN benchmarks. The higher LTV projects often demonstrated increased risk and, in some cases, used more aggressive assumptions in the underwriting as compared to other projects which were underwritten using a more conservative approach.**

OIHCF has previously provided underwriting guidance to Lenders regarding Loan to Value ("LTV") LEAN benchmarks for skilled nursing homes and assisted living facilities. For Skilled Nursing Facilities ("SNF") and Independent Living Units, the maximum LTV is 80% for all Section 232 loan types. For Assisted Living Facilities ("ALF"), *without the presence of strong, specific, risk-mitigating circumstances*, the maximum LTV is 80% for existing units/beds and 75% for new construction (and substantial rehabilitation/241a's where ALF units are being added). For projects that combine existing units/beds and new construction of ALF units, you may use a blended LTV that takes into account the number of beds of each type – see below paragraph for additional details. These maximums should not be exceeded unless there are extenuating circumstances that reduce project risk below that of a typical skilled nursing or assisted living facility.

Note that LEAN underwriting benchmarks permit Not-for-Profit Owner/Operators to have 85% LTV proposals for SNF AND ALF refinancing projects and 80% for new construction ALF projects. To achieve the more liberal LTV benchmark, Not-for-Profit Owners and Operators must demonstrate a successful operating track record, significant project operating and management experience, and a solid financial track record.

## Strengths

- <<Provide discussion of the strengths of the transaction>>

## Underwriting Team

### ***Lender***

Name: \_\_\_\_\_

Underwriter: \_\_\_\_\_

Underwriter Trainee: \_\_\_\_\_  
Mortgage #: \_\_\_\_\_

Site Inspection Date: \_\_\_\_\_  
Inspecting Underwriter: \_\_\_\_\_

<<UNDERWRITER>>  
<<Brief description of qualifications>>

<<UNDERWRITER TRAINEE, if Applicable>>  
<<Brief description of qualifications>>

<<INSPECTING UNDERWRITER, if Applicable>>  
<<Brief description of qualifications. A MAP-approved 232 Underwriter or Lean-approved 232 Underwriter employed by the Lender must visit the site **AND sign this narrative.**>>

**Environmental Consultant**  
<<Brief description of qualifications>>

**Market Analyst**  
<<Brief description of qualifications>>

**Appraiser**  
<<Brief description of qualifications demonstrating that appraiser meets requirements of Appraisal Statement of Work:  

- Be a Certified General Appraiser under the appraiser certification requirements of the State in which the subject property is located;
- Meet all requirements of the Competency Rule described in USPAP;
- Be the individual actually signing the appraisal report;
- Have experience appraising a minimum of 5 similarly licensed healthcare facilities;
- Be currently active and regularly engaged in the appraisal of healthcare properties;
- Be experienced in the market area in which the subject property is located, as per USPAP; and,
- Be knowledgeable concerning current real estate market conditions and financing trends in the geographic market area where the subject property is located, as per USPAP.

>>

## Project Description

**Site**  
<<Brief narrative description about site to include location, topography, size, frontage, proposed access, etc. >>

## **Neighborhood**

<<Brief narrative description about neighborhood area to include major cross streets and access routes; distance to services, hospitals, etc.; adjacent property uses; predominant character or neighborhood; etc.>>

## **Zoning**

☐ Legal Conforming    ☐ Legal Non-Conforming    ☐ Other

<< Narrative description. Identify local jurisdiction; zoning designation; results of Zoning Letter provided in application submission; and, discuss any variances, conditional uses, non-conformance or other pertinent issues affecting zoning.>>

## **Utilities**

<< Narrative description. Identify utilities proposed for use at site. Discuss any limitations in service and any other issues that would affect the operation of the facility. Also clearly identify the utilities to be paid by the residents. >>

## **Improvement Description**

### **Buildings**

<<Narrative description to include number of proposed buildings; construction types; floor area; describe common areas; etc. >>

### **Landscaping**

<<Narrative description about the proposed landscaping>>

### **Parking**

<<Narrative description about the proposed parking including the number of spaces, compliance with accessibility, adequacy of the parking, and any parking easements. Also, discuss any zoning or marketability issues. >>

### **Unit**

#### Unit Mix

<< complete this table or provide equivalent detail>>

Line	Unit Qty	Bed Qty	Bdrms	Baths	Unit Sqft	Care Type
A						
B						
C						
D						
E						
F						
G						
H						
I						
J						
K						
L						
M						
N						
O						
P						
Q						
R						
S						
T						
Totals:	-	-				

  

Line	Unit Qty	Bed Qty	Bdrms	Baths	Unit Sqft	Care Type
A						
B						
C						
D						
E						
F						
G						
H						
I						
J						
K						
L						
M						
N						
O						
P						
Q						
R						
S						
T						
Totals:	-	-				

Field Code Changed

Unit Features

<<Narrative description to describe units, including: appliances, flooring, included furnishings, hook-ups, patios, etc. >>

## Services

<<Narrative description of services provided. Identify which services are included in rent and which services are available for extra charges, as applicable. >>

## Early Commencement of Construction

<<insert the required report/narrative here>>

## Development Budget

### Construction Costs

<< Discuss the estimated construction budget assumed by the developer for the estimated submission>>

Description	Cost	% of Contract	Per Sq ft of GBA	Per Bed
Structures				
Accessory Structures				
Land Improvements				
General/Requirements				
Builder's Overhead				
Builder's Profit				
Other Fees				
Bond Premium				
Total Construction Contract				

### Architect's Fees

<< Provide narrative describing budgeted architect fees (design / supervision ). For example: "The total architectural fees of \$xxxx are estimated. The fee represents X percent of the total cost of total structures, land improvements, and general requirements."

Indicate whether or not an identity of interest between the mortgagor and the architect is planned or if there will be multiple AIA ~~B181~~B108 contracts.>>

## Other Fees

### Schedule of Other Fees to be paid by Mortgagor

Line	Description	Amount
A	Survey - Land and Final "As Built"	
B	Building Permits	
C	Soils Report	
D	Traffic Study	
E	Impact Fees	
F	Hook-up Fees	
G		
H		
I		
J		
TOTAL		\$ -

Line	Description	Amount
A	Survey - Land and Final "As Built"	
B	Building Permits	
C	Soils Report	
D	Traffic Study	
E	Impact Fees	
F	Hook-up Fees	
G		
H		
I		
J		
TOTAL		\$ -

Field Code Changed

<<discuss as necessary>>

### Off-Site and Demolition

<< Describe any off-site work to be accomplished and who will be performing the work. If the General Contractor is responsible, describe the cost attributed to it and the cost reviewer's conclusions about the work and the cost. If the city will be performing the work, describe any cost or hookup fee related.

Describe any demolition that may apply; discuss costs and any other requirements or issues. >>

### Major Movable Equipment

<< The borrower has budgeted \$XXX,XXX for major movable equipment. This equates to approximately \$X,XXX per unit. >>

## Market Analysis

Date of Analysis: \_\_\_\_\_  
Market Analysis Firm: \_\_\_\_\_  
Market Analyst: \_\_\_\_\_

### Key Questions

	<u>Yes</u>	<u>No</u>
1. Is the subject located in a declining market area?	_____	_____
2. Are there any negative market influences that require special consideration?	_____	_____
3. Is there a projected or current oversupply that could affect the subject?	_____	_____

If you answer “yes” to any of the above questions, please address below.

<<For each “YES” answer above, provide a narrative discussion regarding the topic. Example:

**Oversupply:** The projected oversupply is specifically addressed in the Risk Factors section of this narrative.

>>

### Market Analysis Overview

<<Provide an overview of the market analysis, including general growth and population information, barriers to entry, unique market influences, etc.>>.

### Primary Market Area

<<Describe primary market area and method of selection (e.g., distance, zip codes, etc.)

### Target Population

<<Describe Age/Income and type of resident (AL, Independent, Dementia, etc.) and acuity of care.>>

### Demand

<<Describe Target Population Demographics and demand factors concluding to a gross demand.>>

### Competitive Environment

<<Describe and identify competing facilities; planned facilities; facilities under construction; and other supply factors that compete with the subject facility. Description of supply should include types of facilities; acuity; occupancy. Also discuss recent and/or historic absorption of competitive units.>>

### Conclusion

<<Provide conclusion of market analysis: summarize net demand, market saturation, continued health of market, negative and positive factors impacting the continued demand for the subject’s units/beds.>>

## Appraisal

Date of Valuation: \_\_\_\_\_  
Appraisal Firm: \_\_\_\_\_  
Appraiser: \_\_\_\_\_  
License # / State: \_\_\_\_\_

The report was prepared to comply with the reporting requirement outlined under the USPAP as a self-contained report. The report also complies with the requirements of the Code of Professional Ethics of the Appraisal Institute and the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), Title XI Regulations

It was prepared in accordance with the "Healthcare Appraisal Guidelines for HUD/FHA Section 232 Lean Program dated <<insert date of statement of work used by appraiser. This should be the most recent version available at the time the assignment was made.>>."

Summary of the appraisal and underwriting conclusions:

Market Value Summary		
Approach	Appraisal	Underwriter
Income Comparison Cost		
Conclusion:		

### ***Lender Modifications***

<<Brief summary of modifications made by underwriter. For example, "As discussed below in the appropriate sections, the underwriter concludes to lower income and higher expenses than those set forth in the appraisal.">>

<<View the appraisal as a tool to do your underwriting and loan sizing correctly. Lenders should not use a value they disagree with and are allowed to use a lower value/NOI for loan sizing purposes. If Lenders feel they are prohibited from doing this, they should cite the FIREA rule at issue in the narrative.>>

### ***Hypothetical Conditions and Extraordinary Assumptions***

Hypothetical Conditions: <<identify any hypothetical conditions identified in the appraisal.>>

Extraordinary Assumptions: <<identify any extraordinary assumptions identified in the appraisal. For example, "The appraisal assumes the subject project meets the state licensing requirements and that the facility is constructed as planned. There are no other extraordinary assumptions.">>

## Income Capitalization Approach

### Overview

Income Approach Summary		
	Appraisal	Underwriter
Gross Income		
Occupancy Rate:	%	%
Effective Gross Income:		
Expenses (incl. Repl. Res.):	(0)	(0)
Net Operating Income:		
Capitalization Rate:	%	%
Indicated Market Value:		

### Revenue

#### Census Mix

An analysis of the market comparable census mix is provided below.

**Census Mix – Market Comparables**  
(% of beds)

Source	UW	Appraisal	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average
Beds								
Private Pay								#VALUE!
Medicare								#VALUE!
Welfare								#VALUE!
VA								#VALUE!
HMO								#VALUE!
Other								#VALUE!
Total/Average	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	#VALUE!
Source	UW	Appraisal	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average
Beds								
Private Pay								#VALUE!
Medicare								#VALUE!
Welfare								#VALUE!
VA								#VALUE!
HMO								#VALUE!
Other								#VALUE!
Total/Average	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	#VALUE!

Field Code Changed

<<Provide narrative discussion of conclusion. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide the above analysis for each care type. An equivalent analysis of the information provided above is required. Additional analysis can be provided at the Lender's option to support its conclusion, as appropriate.>>

## Rents

The underwriter's rent conclusion is provided below.

**Rent Schedule**  
(Rent per bed)

Line	Unit Qty	Bed Qty	Bdrms	Baths	Unit Sqft	Care Type	Payor Source	UW Monthly Rent
A								
B								
C								
D								
E								
F								
G								
H								
I								
J								
K								
L								
M								
N								
O								
P								
Q								
R								
S								
T								

Totals: - - average: #DIV/0!

Line	Unit Qty	Bed Qty	Bdrms	Baths	Unit Sqft	Care Type	Payor Source	UW Monthly Rent
A								
B								
C								
D								
E								
F								
G								
H								
I								
J								
K								
L								
M								
N								
O								
P								
Q								
R								
S								
T								

Totals: - - average: #DIV/0!

Field Code Changed

<<Rent Schedule provided should provide equivalent information. For skilled nursing and other facilities, a daily rate may be more appropriate than a monthly conclusion. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate schedule for each care type.>>

<<Each type of care should have its own subsection below and discuss each payor source identified in the rent schedule, as demonstrated below.>>

### Skilled Nursing

#### Private Pay

The appraiser and underwriter analyzed the private pay rates at XXX comparable facilities. A summary of their analysis is provided below.

**Rent Comparability Analysis**  
(Rent Per Resident Day)

Skilled Nursing		Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average	Appraisal	Underwriter
Private	Unadjusted								
	Adjusted								
Semi-Private	Unadjusted								
	Adjusted								
3-bed Ward	Unadjusted								
	Adjusted								
4-bed Ward	Unadjusted								
	Adjusted								
Skilled Nursing		Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average	Appraisal	Underwriter
Private	Unadjusted								
	Adjusted								
Semi-Private	Unadjusted								
	Adjusted								
3-bed Ward	Unadjusted								
	Adjusted								
4-bed Ward	Unadjusted								
	Adjusted								

Field Code Changed

<<Provide narrative discussion of conclusion. An equivalent analysis of the information provided above is required. Additional analysis can be provided at the Lender's option to support its conclusion, as appropriate. Identify any modification from the appraiser's concluded rent and provide justification. >>

#### Medicare

<<Provide narrative discussion of conclusion. For example, "The appraiser provided a detailed Resource Utilization Group (RUG) rate analysis of the facility's operation over the last 12-month operating period. The analysis concluded to a weighted average Medicare rate of \$XXX PRD. The RUG Rates used to determine the average rate are based on the <<DATE>> rates. The underwriter concurs with the appraiser's conclusion. Identify any modification from the appraiser's concluded rent and provide justification. ">>

#### Welfare (Medicaid)

<<Provide narrative discussion of State's reimbursement system and how the subject's or tenant's rate is determined. If rate is facility specific, discuss evidence of current or prospective rate. If rate is based on resident care requirements, provide an analysis of the last 12-months of rates for this payor source, as appropriate. Identify and discuss any other sources or copayments that are required (e.g., SSI). Identify any modification from the appraiser's concluded rent and provide justification. >>

#### Veteran's Administration (VA)

<< If applicable, provide narrative discussion of how the rate is determined. Discuss review of evidence (e.g., rate letter) or historical precedent for the underwritten rate. Identify any modification from the appraiser's concluded rent and provide justification.>>

#### HMO or Other Private Insurance

<< If applicable, provide narrative discussion of how the rate is determined. Discuss review of evidence (e.g., rate letter) for the underwritten rate. Identify any modification from the appraiser's concluded rent and provide justification. >>

#### Other

<< If applicable, provide narrative discussion of other types of payor sources: description of source; how the rate is determined. Discuss review of evidence (e.g., rate letter) for the underwritten rate. Identify any modification from the appraiser's concluded rent and provide justification. >>

#### **Assisted Living**

##### Private Pay

The appraiser and underwriter analyzed the assisted living rents at XXX comparable facilities. A summary of their analysis is provided below.

### Rent Comparability Analysis (Rent per Bed)

Assisted Living Units		Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average	Appraisal	Underwriter
<<unit type>>	Unadjusted								
	Adjusted								
<<unit type>>	Unadjusted								
	Adjusted								
<<unit type>>	Unadjusted								
	Adjusted								
<<unit type>>	Unadjusted								
	Adjusted								
Assisted Living Units		Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average	Appraisal	Underwriter
<<unit type>>	Unadjusted								
	Adjusted								
<<unit type>>	Unadjusted								
	Adjusted								
<<unit type>>	Unadjusted								
	Adjusted								

Field Code Changed

<<Provide narrative discussion of conclusion. An equivalent analysis of the information provided above is required. Additional analysis can be provided at the Lender's option to support its conclusion, as appropriate. Identify any modification from the appraiser's concluded rent and provide justification.>>

#### Welfare (Medicaid)

<<If applicable, provide narrative discussion of State's reimbursement system and how the subject's or tenant's rate is determined. If rate is facility specific, discuss evidence of prospective rate. If rate is based on resident care requirements, provide an analysis of how the concluded rent was determined. Identify and discuss any other sources or copayments that are required (e.g., SSI). Identify any modification from the appraiser's concluded rent and provide justification. >>

#### **Independent Units**

The appraiser and underwriter analyzed the independent living rents at XXX comparable facilities. A summary of their analysis is provided below.

**Rent Comparability Analysis**  
(Rent per Unit)

Independent Units		Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average	Appraisal	Underwriter
<<unit type>>	Unadjusted								
	Adjusted								
<<unit type>>	Unadjusted								
	Adjusted								
<<unit type>>	Unadjusted								
	Adjusted								
<<unit type>>	Unadjusted								
	Adjusted								
Independent Units		Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Average	Appraisal	Underwriter
<<unit type>>	Unadjusted								
	Adjusted								
<<unit type>>	Unadjusted								
	Adjusted								
<<unit type>>	Unadjusted								
	Adjusted								

Field Code Changed

<<Provide narrative discussion of conclusion. An equivalent analysis of the information provided above is required. Identify any modification from the appraiser's concluded rent and provide justification. >>

## Other Income

Schedule of Other Income

Line	Description	Qty	Per Qty Per Month	Total Monthly	Annual
A				\$ -	\$ -
B				\$ -	\$ -
C				\$ -	\$ -
D				\$ -	\$ -
E				\$ -	\$ -
F				\$ -	\$ -
G				\$ -	\$ -
H				\$ -	\$ -
I				\$ -	\$ -
J				\$ -	\$ -

Line	Description	Qty	Per Qty Per Month	Total Monthly	Annual
A				\$ -	\$ -
B				\$ -	\$ -
C				\$ -	\$ -
D				\$ -	\$ -
E				\$ -	\$ -
F				\$ -	\$ -
G				\$ -	\$ -
H				\$ -	\$ -
I				\$ -	\$ -
J				\$ -	\$ -

Field Code Changed

<< Provide narrative discussion and support for each other income category as appropriate. An equivalent analysis of the information provided above is required. Additional analysis can be provided at the Lender's option to support their conclusion, as appropriate. A few examples follow:

### **Additional Personal Care Fees**

The project bases additional care fees on levels of care needed as determined by the initial assessment and subsequent assessments as needed. The appraiser concludes to a *net* amount of \$X annually based on his analysis of comparable data <<insert comparable data as appropriate>>. Identify any modification from the appraiser's concluded fees and provide justification.

### **Second Occupant Income**

The appraiser has included a net annual projection of X second occupants at \$X per month. Competitive facilities in the market place report second occupant charges ranging between \$X and \$X with a range of X to X second occupants. Based on the market, the underwriter concurs with the appraiser's conclusion for a net annual income of \$X. Identify any modification from the appraiser's concluded fees and provide justification.

### Miscellaneous Income

In addition to room rents, additional care, and second occupant income, the project will receive miscellaneous income from <<list miscellaneous>>. The appraiser has included a net annual projection of \$X. Typically, miscellaneous income is between x and x percent of effective income. The appraiser's conclusion is x. The underwriter has concluded to a net \$X per annum (calculation shown). Identify any modification from the appraiser's concluded fees and provide justification.

>>

### Occupancy

A summary of the market occupancy is provided below.

**Market Occupancy Analysis**

	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Overall	Appraisal	Underwriter
Total Units						-		
Occupancy						#DIV/0!		
Occupied Units	-	-	-	-	-	-		
	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Overall	Appraisal	Underwriter
Total Units						-		
Occupancy						#DIV/0!		
Occupied Units	-	-	-	-	-	-		

Field Code Changed

<<Provide narrative discussion of conclusion. An equivalent analysis of the information provided above is required. For skilled nursing and other facilities, resident days may be more appropriate than units or beds. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate schedule for each care type. The narrative should address any decline in or below average occupancy. Additional analysis can be provided at the Lender's option to support its conclusion, as appropriate. >>

### Expenses

The appraiser concludes to total expenses of \$X including reserve for replacement of \$X. The underwriter concludes to total expenses of \$X including reserve for replacement of \$X. The appraiser compared the subject's expense conclusions to X comparable projects located X.

**Comparable Expense Data**

**Expense Analysis –Comparables**  
(Per Occupied Unit)

Category	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Averages	Appraisal	Underwriter
General & Administrative								
Payroll Taxes & Benefits								
Resident Care								
Food Service								
Activities								
Housekeeping/Laundry								
Plant Operations								
Utilities								
Marketing/Promotions								
Real Estate Taxes								
Insurance								
Management Fee								
Replacement Reserves								
TOTAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Field Code Changed

Key Data (per occupied unit)	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Averages	Appraisal	Underwriter
Effective Gross Income								
Net Operating Income	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -
Expense Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#VALUE!	#DIV/0!	#DIV/0!
Occupancy								
Total Units								
Independent	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!
Assisted/Dementia	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!

Category	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Averages	Appraisal	Underwriter
General & Administrative								
Payroll Taxes & Benefits								
Resident Care								
Food Service								
Activities								
Housekeeping/Laundry								
Plant Operations								
Utilities								
Marketing/Promotions								
Real Estate Taxes								
Insurance								
Management Fee								
Replacement Reserves								
TOTAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Key Data (per occupied unit)	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Averages	Appraisal	Underwriter
Effective Gross Income								
Net Operating Income	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -
Expense Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#VALUE!	#DIV/0!	#DIV/0!
Occupancy								
Total Units								
Independent	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!
Assisted/Dementia	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!

<<Provide narrative discussion of comparable information. An equivalent analysis of the information provided above is required. For skilled nursing and other facilities, resident days may be more appropriate than units or beds. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate schedule for each care type. The narrative should discuss the subject in relation to the comparable data. Additional analysis can be provided at the Lender's option to support its conclusion, as appropriate. >>

## Net Operating Income

<<Provide narrative discussion as necessary. An equivalent analysis of the information provided above is required. Additional analysis can be provided at the Lender's option to support its conclusion, as appropriate. >>

## Capitalization Rate

Capitalization Rate – Comparable Sales

Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Comparable Average	Appraiser	Underwriter
					#DIV/0!		
Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Comparable Average	Appraiser	Underwriter
					#DIV/0!		

Field Code Changed

<<Provide narrative discussion as necessary. An equivalent analysis of the information provided above is required. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate schedule for each care type. Additional analysis can be provided at the Lender's option to support its conclusion, as appropriate.>>

## Sales Comparison Approach

Comparison Approach Summary		
	Appraisal	Underwriter
Per <<Unit or Bed>>:		
Total:		
EGIM:		
Total:		
Concluded Market Value:		

**Summary of Comparables Sales Data**  
(as adjusted by Underwriter)

		Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Average
Price Per Unit	Unadjusted						#DIV/0!
	Adjusted						#DIV/0!
	Net	\$ -	\$ -	\$ -	\$ -	\$ -	
	Adjustment	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	
EGIM							
Expense Ratio							
Located in State/PMA?		<<Yes or No>>					
		Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Average
Price Per Unit	Unadjusted						#DIV/0!
	Adjusted						#DIV/0!
	Net	\$ -	\$ -	\$ -	\$ -	\$ -	
	Adjustment	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	
EGIM							
Expense Ratio							
Located in State/PMA?		<<Yes or No>>					

Field Code Changed

### Price Per Unit

<<Provide narrative discussion. An equivalent analysis of the information provided above is required. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate analysis for each care type. Include a general discussion of adjustments made to the sales and which comparables best represent the subject facility. Additional analysis can be provided at the Lender's option to support its conclusion, as appropriate.>>

### Effective Gross Income Multiplier (EGIM)

<<Provide narrative discussion. An equivalent analysis of the information provided above is required. For continuum of care facilities (e.g., skilled and assisted living), it may be appropriate to provide a separate analysis for each care type. Additional analysis can be provided at the Lender's option to support its conclusion, as appropriate.>>

## Cost Approach

### Overview

Cost Approach Summary		
	Appraisal	Underwriter
Total for All Improvements:		
Carrying Charges and Financing:		
Legal, Organization, Cost Cert:		
Marketing Allowance:		
Major Movable Equipment:		
Land Value:		
Indicated Market Value:		

### Total for All Improvements

<<Provide narrative discussion.>>

### Carrying Charges and Financing

<<Provide narrative discussion.>>

### Legal, Organization, and Cost Certification

<<Provide narrative discussion.>>

### Marketing Allowance

<<Provide narrative discussion.>>

### Major Movable Equipment

<<Provide narrative discussion of assumptions and conclusion. [Value of Major Movable Equipment will be listed as a separate line item on the Property Insurance Schedule, Form HUD-92329, and included as a part of the 100% Insurable Value.](#) Additionally, address ownership of the major movable equipment (e.g., Mortgagor or Operator).>>

### Land Value

<<Provide narrative discussion of assumptions and conclusion. Include an analysis of the comparable data.>>

### Economic Life

<<Provide narrative discussion of assumptions and conclusion. The underwriter and appraiser are required to sufficiently justify the remaining economic life to determine the term of the mortgage.>>

### **Initial Operating Deficit**

<<Provide a detailed narrative discussion of assumptions and conclusion. Include a discussion of the Mortgagor/Operator/Management's operating deficit; the appraiser's; and, the lender's analysis.>>

### **Reconciliation**

<<Provide narrative discussion of how the value approaches were reconciled to reach the final conclusions. The statement may be simple. For example, "As demonstrated in the Appraisal Overview section above, the underwritten value conclusion is based on the income approach to value." If the value conclusion is based on weighting multiple approaches provide an explanation of the rationale. The value used for criterion 3 of the form HUD-92264-A will be the lesser of: (a) Total Estimated Replacement Cost; and, (b) the Fair Market Value.>>

## **ALTA/ACSM Land Title Survey**

Date: \_\_\_\_\_

Firm: \_\_\_\_\_

### **Key Questions**

	<u>Yes</u>	<u>No</u>
1. Are there any differences between the legal description on the survey and legal description included in pro forma title policy?	_____	_____
2. Are there any revisions or modification required to the survey prior to closing?	_____	_____
3. Does the survey indicate any boundary encroachments?	_____	_____
4. Does the survey evidence any buildings encroaching on utility or other easements or rights-of-way?	_____	_____
5. Do any buildings encroach on either the 100- or 500-year flood plains?	_____	_____
6. Do any buildings or improvements encroach on wetland areas or their buffer zones?	_____	_____
7. Are there any unusual circumstances or items that require special attention or conditions?	_____	_____

If you answer "yes" to any of the above questions, please address below.

<<For each "YES" answer above, provide a narrative discussion regarding the topic. Example:

**Encroachments:** The survey indicates an encroachment of the adjoining property fence on the easterly portion of the property.....An encroachment endorsement will be received at closing.  
>>

## **Title**

### **Title Search**

Date of Search: \_\_\_\_\_

Firm: \_\_\_\_\_

File Number: \_\_\_\_\_

### Key Questions

	<u>Yes</u>	<u>No</u>
1. Is the title currently vested in an entity or individual other than the proposed Mortgagor?	_____	_____
2. Does report indicate that delinquent real estate taxes are owed?	_____	_____
3. Does the report indicate any outstanding special assessments?	_____	_____
4. Does the report identify any outstanding debt that is not disclosed on the Mortgagor's listing of outstanding obligations?	_____	_____
5. Are there or will there be any Use and Maintenance Agreements associated with this facility?	_____	_____

If you answer "yes" to any of the above questions, please address below.

<<For each "YES" answer above, provide a narrative discussion regarding the topic.>>

### Pro-forma Policy

Date/Time: \_\_\_\_\_

Firm: \_\_\_\_\_

Policy Number: \_\_\_\_\_

### Key Questions

	<u>Yes</u>	<u>No</u>
1. Is the title vested in an entity or individual other than the proposed Mortgagor?	_____	_____
2. Are there any covenants, <u>conditions, and encumbrances, liens, restrictions, or other exceptions</u> indicated on Schedule B-1?	_____	_____
3. Are there any use or affordability restrictions remaining in effect on the property?	_____	_____
4. Are there any easements or rights of way listed that are not indicated on the Survey?	_____	_____
5. Are there any endorsements included aside from the standard HUD <u>required endorsements</u> ?	_____	_____
6. Are there any subordination agreements, <u>encroachments</u> or <u>similar</u> issues that require HUD's approval?	_____	_____
7. Are there any other matters requiring special consideration, agreements, or conditions that require HUD's attention?	_____	_____

If you answer "yes" to any of the above questions, please address below.

<<For each "YES" answer above, provide a narrative discussion regarding the topic. Example:

**Additional Endorsements:** As described in the Risk Factors section of the narrative, the XXXX does not conform to the past or current zoning requirements. The Lender recommends....

>>

## Environmental

### Phase I Environmental Site Assessment

Date of Inspection: \_\_\_\_\_

Firm: \_\_\_\_\_

Consultant: \_\_\_\_\_

#### Key Phase I Environmental Questions

	<u>Yes</u>	<u>No</u>
1. Does the report recommend a Phase II assessment, other reports, or additional testing?	_____	_____
2. Does the report indicate the presence or suspected presence of any Asbestos Containing Materials?	_____	_____
3. Does the report indicate evidence of any soil staining or distressed vegetation, unusual odors, pools of liquid, leaking containers or equipment, hazardous materials or other unidentified substances?	_____	_____
4. Does the report indicate evidence of any chemical misuse or unlawful dumping at the site?	_____	_____
5. Does the report indicate the presence or suspected presence of any underground storage tanks or aboveground storage tanks on the site?	_____	_____
6. Does the report's review of all major governmental databases for listings of potentially hazardous sites within the ASTM required search distances from the property identify any potential contamination concerns for the property?	_____	_____
7. Does the Phase I recommend any required repairs?	_____	_____

If you answer "yes" to any of the above questions, please address below.

<<For each "YES" answer above, provide a narrative discussion regarding the topic.>>

#### General Overview

The Phase I Environmental Site Assessment (ESA) was performed in conformance with the scope and limitations of ASTM Practice E 1527-05. (Because ASTM may amend these requirements, please reference the most recent version.) The investigation specifically included a reconnaissance of the subject site and the immediate surrounding area, a review of regulatory agency information, a survey of local geological and topographical maps, a review of aerial photographic studies, survey of water sources, a review of historical information and a limited visual inspection for suspect asbestos containing materials (ACMs).

#### **Lender Modifications**

<<Provide a brief summary of modifications made by underwriter. If none, state none.>>

## Other Potential Environmental Concerns

### Key HUD Environmental Questions

	<u>Yes</u>	<u>No</u>
1. Is the subject located within a designated coastal barrier resource area?	_____	_____
2. Is the subject located within the 100- or 500-year floodplain?	_____	_____
3. Are there any known historic preservation issues related to the subject?	_____	_____
4. Is the subject located within 5 miles of a civil airport or within 15 miles of a military airfield?	_____	_____
5. Is the project located within 1,000 feet of major highways or busy roads?	_____	_____
6. Is the project located within 3,000 feet of a railroad?	_____	_____
7. Are industrial facilities handling explosive or fire-prone materials such as liquid propane, gasoline or other storage tanks adjacent to or visible from the project site?	_____	_____
8. Are there any wetlands on the subject site?	_____	_____
9. Is any construction of the project likely to affect any listed or proposed endangered or threatened species or critical habitats?	_____	_____
10. Is the subject located on a sole source aquifer?	_____	_____
11. Are there any known landfills within ½-mile of the site?	_____	_____
12. Are any buildings located in the fall zone of any high voltage power transmission or other towers?	_____	_____

If you answer "yes" to any of the above questions, please address below.

<<For each "YES" answer above, provide a narrative discussion regarding the topic.

### State Historic Preservation Office (SHPO) Clearance

<<Provide narrative description indicating whether or not SHPO has been contacted, etc. For example, "We have received a letter from the XXXX State Historic Society, dated XXXX. It was determined that the site is of no historical or suspected archeological significance. No additional investigation was recommended by the State.">>

### Flood Plain

	<u>Yes</u>	<u>No</u>
Does the community participate in the National Flood Insurance Program (NFIP)?	_____	_____
Is Flood Insurance required for this property?	_____	_____
NFIP Map Panel #: _____ Date: _____		
Flood Zone: _____		

<<If project is in 100- or 500- year flood plain, provide narrative discussion evaluating exhibits required on checklist.>>

## Mortgagor

Name: \_\_\_\_\_  
State of Organization: \_\_\_\_\_  
Date Formed: \_\_\_\_\_  
Termination Date: \_\_\_\_\_

### Key Questions

	<u>Yes</u>	<u>No</u>
1. Does the Mortgagor currently own any assets other than the property or participate in any other businesses?	_____	_____
2. According to the application exhibits, is or has the Mortgagor been delinquent on any Federal debt?	_____	_____
3. According to the application exhibits, is or has the Mortgagor been a defendant in any suit or legal action?	_____	_____
4. According to the application exhibits, has the Mortgagor ever claimed bankruptcy or made compromised settlements with creditors?	_____	_____
5. According to the application exhibits, are there judgments recorded against the Mortgagor?	_____	_____
6. According to the application exhibits, are there any unsatisfied tax liens?	_____	_____

If you answer "yes" to any of the above questions, please address below.

<<For each "YES" answer above, provide a narrative discussion regarding the topic.>>

### Organization

<<Organization Chart and Narrative, as applicable. At a minimum, all principals of the mortgagor should be identified.>>

### Experience / Qualifications

<< Narrative description of Mortgagor (experience, if any) and qualifications. For example, "The mortgagor entity is a newly formed single asset entity that was established in {date} to develop and own the subject project. ">>

### Financial Statements

The application includes the following Mortgagor financial statements:

Balance Sheet as of: \_\_\_\_\_

### Key Questions:

	<u>Yes</u>	<u>No</u>
1. Is the balance sheet missing any required information or schedules?	_____	_____

- |   | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| 2. Does the balance sheet provided include financial data from assets or liabilities not related to owning and operating this facility? | _____      | _____     |
| 3. Did your review and analysis of the balance sheet indicate any other material concerns or weaknesses that need to be addressed?      | _____      | _____     |

If you answer “yes” to any of the above questions, please address below.

<<For each “YES” answer above, provide a narrative discussion regarding the topic. If not applicable, indicate “NA” in the No column. Example:

### **General Review**

<<Provide Narrative and analysis of financial statements as appropriate. In addition to the Key Questions above, working capital should be discussed along with the general financial stability and position of the entity.>>

### **Conclusion**

<<Provide narrative discussion of underwriter’s conclusion and recommendation. For example, “The Mortgagor is a single asset entity registered in the State of xxx on {date}. It was formed solely to own and operate the subject project. The organizational documents have been reviewed by counsel and comply with HUD requirements in order to participate as an acceptable Mortgagor in this transaction.”>>

## **Principal of the Mortgagor – <<PRINCIPAL NAME>>**

<<provide this section for each principal of the mortgagor>>

### **Key Questions**

- |   | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| 1. According to the application exhibits, is or has the Principal been delinquent on any Federal debt?                              | _____      | _____     |
| 2. According to the application exhibits, is or has the Principal been a defendant in any suit or legal action?                     | _____      | _____     |
| 3. According to the application exhibits, has the Principal ever claimed bankruptcy or made compromised settlements with creditors? | _____      | _____     |
| 4. According to the application exhibits, are there judgments recorded against the Principal?                                       | _____      | _____     |
| 5. According to the application exhibits, are there any unsatisfied tax liens against the Principal?                                | _____      | _____     |

If you answer “yes” to any of the above questions, identify the risk factor and how it is mitigated below.

<<For each “YES” answer above, provide a narrative discussion regarding the topic.>>

### **Organization (not applicable to individuals)**

<<If the principal is an entity, provide the following:

State of Organization: \_\_\_\_\_

Date Formed: \_\_\_\_\_  
Termination Date: \_\_\_\_\_

<<Organization Chart and Narrative, as applicable.>>

### **Experience / Qualifications**

<< Narrative description of principal's experience and qualifications. Discussion should highlight direct experience and involvement in other FHA transactions. This section should clearly demonstrate that the Mortgagor will have sufficient expertise from which to draw to successfully own the facility. >>

### **Credit History**

Report Date: <<within 60 days of submission>>  
<<Dunn & Bradstreet or other *acceptable* commercial credit report for business entities and RCMR 'residential' for individuals>>  
Firm: \_\_\_\_\_  
Score: \_\_\_\_\_

**Program Guidance:** Dunn & Bradstreet or other *acceptable* commercial credit report for business entities and RCMR 'residential' for individuals are required. If not using D&B an acceptable commercial credit report must include the following:  
a) public filings that includes suits, liens, judgments, bankruptcies & federal debt;  
b) UCC filings; c) credit payment history; d) industry standards showing how the facility compares in the areas of financial stress & payment trends; and e) a credit payment delinquency risk score over a 12-month period. Credit reports can be no more than 60 days old at the time of the Firm Application submission.

### **Key Questions**

	<u>Yes</u>	<u>No</u>
1. Does the credit report identify any material derogatory information not previously discussed?	_____	_____
2. Does the underwriter have any concerns related to their review of the credit report?	_____	_____

If you answer "yes" to any of the above questions, identify the risk factor and how it is mitigated below.

<<For each "YES" answer above, provide a narrative discussion regarding the topic.>>

### **Other Business Concerns/232 Applications**

	<u>Yes</u>	<u>No</u>
1. Does the Principal identify any other business concerns?	_____	_____
a. Do any of the other business concerns have pending judgments; legal actions or suite; or, bankruptcy claims?	_____	_____
b. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information?	_____	_____

- |  | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 2. Does the Principal identify any other Section 232 or Section 232/223(f) loans on Part VI and Attachment Two of their certification? | _____      | _____     |

If you answer “yes” to any of the above questions, identify the risk factor and how it is mitigated below.

<<For each “YES” answer above, provide a narrative discussion regarding the topic.

Example:

**Other Business Concerns:**

XXXXXX identified XX other business concerns in addition to the Mortgagor and the Operator discussed in this narrative. The underwriter reviewed Dunn and Bradstreet credit reports for XX Other Business Concerns identified by XXXX. {discuss each report} .... No reports indicated derogatory information that would prohibit XXXXX participation in this loan transaction.

**Other Section 232 Applications:**

XXXXXX identified XX other Section 232 loan application – {projects}. The applications were submitted .... and closed in .... As this is only XXXXX’s Xth FHA-insured healthcare loan, no additional reviews required by HUD Notice H 01-03 are required.

**Conclusion**

<<Provide narrative discussion of underwriter’s conclusion and recommendation. For example, “XXXXXX has demonstrated an acceptable credit history and sufficient experience owning and operating other facilities. The underwriter recommends this principal as an acceptable participant in this transaction.”>>

**Operator**

Name: \_\_\_\_\_

State of Organization: \_\_\_\_\_

Date Formed: \_\_\_\_\_

Termination Date: \_\_\_\_\_

**Key Questions**

- |  | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 1. Does the Operator currently own, operate, or manage any other facilities?   | _____      | _____     |
| 2. Does the Operator contract out nursing services exclusive of temporary staffing through an agency and/or contracting for ancillary services (e.g., therapies, pharmaceuticals)? | _____      | _____     |
| 3. According to the application exhibits, is or has the Operator been delinquent on any Federal debt?  | _____      | _____     |
| 4. According to the application exhibits, is or has the Operator been a defendant in any suit or legal action?   | _____      | _____     |
| 5. According to the application exhibits, has the Operator ever claimed bankruptcy or made compromised settlements with creditors?   | _____      | _____     |
| 6. According to the application exhibits, are there judgments recorded against the Operator?   | _____      | _____     |
| 7. According to the application exhibits, are there any unsatisfied tax liens?   | _____      | _____     |

If you answer "yes" to any of the above questions, please identify each risk factor and how it is mitigated below.

<<For each "YES" answer above, provide a narrative discussion regarding the topic.>>

### **Organization**

<<Organization Chart and Narrative, as applicable. >>

### **Experience / Qualifications**

<< Provide narrative description of Operator's experience and qualifications. Discussion should highlight direct experience and involvement in other FHA transactions, if any. This section should clearly demonstrate that the Operator has the expertise to successfully lease up a new facility and operate a facility. >>

### **Credit History**

Report Date: <<within 60 days of submission>>  
Firm: <<Dunn & Bradstreet or other *acceptable* commercial credit report for business entities>>  
Score: \_\_\_\_\_

### **Key Questions**

- |  | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 1. Does the credit report identify any material derogatory information not previously discussed? | _____      | _____     |
| 2. Does the underwriter have any concerns related to their review of the credit report?          | _____      | _____     |

If you answer "yes" to any of the above questions, please identify each risk factor and how it is mitigated below.

<<For each "YES" answer above, provide a narrative discussion regarding the topic.>>

### **Other Business Concerns/232 Applications**

- |   | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| 1. Does the Operator identify any other business concerns?  | _____      | _____     |
| a. Do any of the other business concerns have pending judgments; legal actions or suite; or, bankruptcy claims?               | _____      | _____     |
| b. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information?     | _____      | _____     |
| 2. Does the Operator identify any other Section 232 or Section 232/223(f) loans on their certification or its Attachment (s)? | _____      | _____     |

If you answer "yes" to any of the above questions, please address below. If it is a derogatory credit issue, identify each risk factor and how it is mitigated below.

<<For each "YES" answer above, provide a narrative discussion regarding the topic.

*Examples:*

#### **Other Business Concerns:**

XXXXXX identified XX other business concerns in addition to the Mortgagor and the Operator discussed in this narrative. The underwriter reviewed Dunn and Bradstreet credit reports for XX Other Business Concerns identified by XXXX. {discuss each report}.... No reports indicated derogatory information that would prohibit XXXXX participation in this loan transaction.

**Other Section 232 Applications:**

XXXXXX identified XX other Section 232 loan applications – {projects}. The applications were submitted .... and closed in ..... As this is only XXXXX’s Xth FHA-insured healthcare loan, no additional reviews required by HUD Notice H 01-03 are required.

>>

***Financial Statements***

The application includes the following Operator financial statements:

Year to date:	<u>&lt;&lt;dates for start and end of period&gt;&gt;</u>
Fiscal Year Ending:	<u>&lt;&lt;date – end of period&gt;&gt;</u>
Fiscal Year Ending:	<u>&lt;&lt;date – end of period&gt;&gt;</u>
Fiscal Year Ending:	<u>&lt;&lt;date – end of period&gt;&gt;</u>

**Key Questions:**

	<u>Yes</u>	<u>No</u>
1. Are less than 3-years of historical financial data available for the Operator?	_____	_____
2. Are the financial statements missing any required information or schedules?	_____	_____
3. Do any of the financial statements indicate a loss prior to depreciation?	_____	_____
4. Do the Aging of Accounts Payable schedules show any payables in excess of 60 day in amounts over \$2,500?	_____	_____
5. Do the Aging of Accounts Receivable schedules show any receivables in excess of 60 day in amounts over \$2,500?	_____	_____
6. Did your review and analysis of the financial statements indicate any other material concerns or weaknesses that need to be addressed?	_____	_____

If you answer “yes” to any of the above questions, please identify each risk factor and how it is mitigated below. The Accounts Payable and Accounts Receivable analysis provides information regarding an entities collection and payment practices, policies, and potential risks to the new project. Discuss your analysis of these issues and how the lender determined they are an acceptable risk.

<<For each “YES” answer above, provide a narrative discussion regarding the topic. If not applicable, indicate “NA” in the No column.

Example:

**No Financial Statements:** The Operator is a newly formed entity and does not have a financial history to report. At this time, the operation of this facility is the new entity’s sole purpose, so there is no need to review financial data from other facilities or sources.

### **General Review**

<<Provide Narrative and analysis of financial statements as appropriate. In addition to the Key Questions above, working capital should be discussed along with the general financial stability and strength of the entity.>>

### **Conclusion**

<<Provide narrative discussion of underwriter's conclusion and recommendation. For example, "The Operator entity has demonstrated an acceptable financial and credit history as demonstrated in our analysis of their financial statements and credit history as discussed above. The Operator has the experience to successfully operate this facility. The underwriter recommends this Operator for approval as an acceptable participant in this transaction.">>

### **Parent of the Operator (if applicable)**

<<provide this section for each parent organization of the operator. This section is not applicable to individuals who are principals unless you are depending on the person or persons for approval of the operator (e.g., newly formed entity). In that instance (individuals), follow the Principal of the Mortgagor template and modify it appropriately for an Operator. >>

Name: \_\_\_\_\_  
State of Organization: \_\_\_\_\_  
Date Formed: \_\_\_\_\_  
Termination Date: \_\_\_\_\_

### **Key Questions**

	<u>Yes</u>	<u>No</u>
1. Does the Parent of the Operator currently own, operate, or manage any other facilities?	_____	_____
2. According to the application exhibits, is or has the Parent of the Operator been delinquent on any Federal debt?	_____	_____
3. According to the application exhibits, is or has the Parent of the Operator been a defendant in any suit or legal action?	_____	_____
4. According to the application exhibits, has the Parent of the Operator ever claimed bankruptcy or made compromised settlements with creditors?	_____	_____
5. According to the application exhibits, are there judgments recorded against the Parent of the Operator?	_____	_____
6. According to the application exhibits, are there any unsatisfied tax liens?	_____	_____

If you answer "yes" to any of the above questions, identify the risk factor and how it is mitigated.

<<For each "YES" answer above, provide a narrative discussion regarding the topic. >>

### **Organization**

<< Organization Chart and Narrative, as applicable. >>

## Experience / Qualifications

<< Narrative description of experience and qualifications. Discussion should highlight direct experience and involvement in other FHA transactions. This section should clearly demonstrate the expertise to successfully lease up a new facility and operate the facility.>>

## Credit History

Report Date: <<within 60 days of submission>>  
Firm: <<Dunn & Bradstreet or other *acceptable* commercial credit report for business entities. >>  
Score: \_\_\_\_\_

### Key Questions

	<u>Yes</u>	<u>No</u>
1. Does the credit report identify any material derogatory information not previously discussed?	_____	_____
2. Does the underwriter have any concerns related to their review of the credit report?	_____	_____

If you answer “yes” to any of the above questions, please identify the risk factor and how it is mitigated.

<<For each “YES” answer above, provide a narrative discussion regarding the topic.>>

## Other Business Concerns/232 Applications

	<u>Yes</u>	<u>No</u>
1. Does the Operator identify any other business concerns?	_____	_____
a. Do any of the other business concerns have pending judgments; legal actions or suite; or, bankruptcy claims?	_____	_____
b. Do the credit reports on the 10% sampling of the other business concerns indicate any material derogatory information?	_____	_____
2. Does the Principal identify any other Section 232 or Section 232/223(f) loans on Part VI and Attachment Two of their certification?	_____	_____

If you answer “yes” to any of the above questions, identify the risk factor and how it is mitigated.

<<For each “YES” answer above, provide a narrative discussion regarding the topic.

Example:

### Other Business Concerns:

XXXXXX identified XX other business concerns in addition to the Mortgagor and the newly formed Operator discussed in this narrative. The underwriter reviewed Dunn and Bradstreet credit reports for XX Other Business Concerns identified by XXXX. {discuss each report}.... No reports indicated derogatory information that would prohibit XXXXX participation as Parent of the Operator in this loan transaction.

### Other Section 232 Applications:

XXXXXX identified XX other Section 232 loan application – {projects}. The applications were submitted .... and closed in .... As this is only XXXXX’s Xth FHA-insured healthcare loan, no additional reviews required by HUD Notice H 01-03 are required.

>>

### **Financial Statements**

The application includes the following financial statements for the Parent of the Operator:

Year to date: <<dates for start and end of period>>  
Fiscal Year Ending: <<date – end of period>>  
Fiscal Year Ending: <<date – end of period>>  
Fiscal Year Ending: <<date – end of period>>

### **Key Questions:**

	<u>Yes</u>	<u>No</u>
1. Are less than 3-years of historical financial data available for the Parent of the Operator?	_____	_____
2. Are the financial statements missing any required information or schedules?	_____	_____
3. Do any of the financial statements indicate a loss prior to depreciation?	_____	_____
4. Do the Aging of Accounts Payable schedules show any payables in excess of 60 day in amounts over \$2,500?	_____	_____
5. Do the Aging of Accounts Receivable schedules show any receivables in excess of 60 day in amounts over \$2,500?	_____	_____
6. Did your review and analysis of the financial statements indicate any other material concerns or weaknesses that need to be addressed?	_____	_____

If you answer “yes” to any of the above questions, please identify each risk factor and how it is mitigated below. The Accounts Payable and Accounts Receivable analysis provides information regarding an entities collection and payment practices, policies, and potential risk to the subject. Discuss your analysis of these issues and how the lender determined they are an acceptable risk.

<<For each “YES” answer above, provide a narrative discussion regarding the topic. If not applicable, indicate “NA” in the No column.>>

### **General Review**

<<Provide Narrative and analysis of financial statements as appropriate. In addition to the Key Questions above, working capital should be discussed along with the general financial stability and strength of the entity.>>

### **Conclusion**

<<Provide narrative discussion of underwriter’s conclusion and recommendation. For example, “The Parent of the Operator entity has demonstrated an acceptable financial and credit history. The underwriter’s review of the Parent of the Operator does not reveal any material derogatory information that would prohibit the approval of the Operator entity as an acceptable participant in this transaction.”>>

### **Management Agent (if applicable)**

<<Provide this section if application exhibits are required for the Management Agent>>

Name: \_\_\_\_\_

Relation to Mortgagor: Owner Managed/IOI Entity/Independent/Other

Principals/Officers: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

### Key Questions

- |  | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 1. Does the Management Agent have experience managing other FHA-insured properties?  | _____      | _____     |
| a. Has the agent received any “unsatisfactory” management reviews from HUD?  | _____      | _____     |
| b. Have any managed, owned, or operated properties received REAC scores lower than 80?   | _____      | _____     |
| 2. Does the Management Agent have less than 3-years of experience managing similar properties?   | _____      | _____     |
| 3. If the Management Agent is named on the license for the facility, does the Management Agent contract out nursing services exclusive of temporary staffing through an agency and/or contracting for ancillary services (e.g., therapies, pharmaceuticals)? | _____      | _____     |

If you answer “yes” to any of the above questions, identify the risk factor and how it is mitigated below.

<<For each “YES” answer above, provide a narrative discussion regarding the topic. Example:

### Previous HUD Experience

Project Name	Project City	Project State	Type of Facility

>>

### **Experience / Qualifications**

<< Narrative description of experience and qualifications. Discussion should highlight direct experience and involvement in other FHA transactions, if any. This section should clearly demonstrate the expertise to successfully manage the facility and meet the obligations of the management agreement. This section should clearly demonstrate that the Management Agent has the expertise to successfully lease up a new facility and operate a facility.>>

### **Credit History**

Report Date: \_\_\_\_\_

Firm: \_\_\_\_\_

Score: \_\_\_\_\_

### Key Questions

- |  | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 1. Does the credit report identify any material derogatory information not previously discussed? | _____      | _____     |
| 2. Does the underwriter have any concerns related to their review of the credit report?          | _____      | _____     |

If you answer "yes" to any of the above questions, identify the risk factor and how it is mitigated below.

<<For each "YES" answer above, provide a narrative discussion regarding the topic.>>

### Past and Current Performance

Indicator	Findings
Billing	<<acceptable>>
Controlling Operating Expenses	
Vacancy Rates	
Resident Turnover	
Rent Collection and Accounts Receivable	
Physical Security	
Physical Condition and Maintenance	
Resident Relations	

<<Provide narrative support for review and finding. For example, "Based on interviews with the principals of the mortgagor and management agent, as well as a review of the management policies and procedures, the underwriter has concluded that the management agent has demonstrated acceptable past and current performance with regard to all of the above indicators.">>

### Management Agreement

Date of Agreement: \_\_\_\_\_  
Agreement Expires: \_\_\_\_\_  
Management Fee: \_\_\_\_\_

### Key Questions

- |  | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 1. Does the agreement sufficiently describe the services the agent is responsible for performing and for which the agent will be paid management fees?   | _____      | _____     |
| 2. Does the agreement provide that the management fees will be computed and paid according to HUD requirements?  | _____      | _____     |
| 3. Does the agreement provide that HUD may require the owner to terminate the agreement <del>(1) Immediately, in the event a default under the Mortgage, Note, Regulatory Agreement, or Subsidy Contract attributable to the management agent occurs; (2) Upon 30 days without penalty and without cause upon written request by HUD and contain a provision that gives no more than a thirty day notice, for failure to comply with the provisions of the Management Certification or other good cause; or (3) When HUD takes over as Mortgagee in Possession (MIP)?</del> termination? | _____      | _____     |

- |  | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 4. Does the agreement provide that HUD's rights and requirements will prevail in the event the management agreement conflicts with them?   | _____      | _____     |
| 5. Does the agreement provide that the management agent will turn over to the owner all of the project's cash trust accounts, investments, and records immediately, but in no event more than 30 days after the date the management agreement is terminated? | _____      | _____     |
| 6. The agreement does NOT exempt the agent from all liability for damages and injuries?  | _____      | _____     |

If you answer "NO" to any of the above questions, identify the risk factor and how it is mitigated below.

<<For each "NO" answer above, provide a narrative discussion regarding the topic.>>

## HUD Documents

### Form HUD-9839-A, HUD-9839-B, or HUD-9839-C

<<Provide narrative review. For example, "The form HUD-9839-B, Project Owner's/Management Agent's Certification, provided in the application package indicates a management fee of XX percent of the residential, commercial and miscellaneous income collected, which is in line with industry standards for projects of this size. The term of the agreement is for XX-years. The stated fee and term match those stated in the management agreement. The fee calculations on page 4 are coordinated with the underwriting conclusions.">>

### Form HUD-9832

<<Provide narrative review. For example, "The form HUD-9832, Management Entity Profile, is provided in the application. The form has been reviewed by the underwriter and found acceptable for underwriting. The management agent's responses are indicative of experienced management agents in the industry and demonstrate the agent's experience.">>

## Conclusion

<<Provide narrative discussion of underwriter's conclusion and recommendation. For example, "The Management Agent has demonstrated an acceptable credit history and has the experience to continue to successfully manage this facility. The underwriter recommends this Management Agent for approval as an acceptable participant in this transaction.">>

## Operation of the Facility

### State Surveys

### Other Facilities Operated or Managed

<<This section is only applicable for SKILLED NURSING facilities. >>

	<u>Yes</u>	<u>No</u>
Does the Operator own, operate, or manage any other facilities?	_____	_____

- |   | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| a. Do any of the other facilities have pending judgments; legal actions or suits; or, bankruptcy claims?                                    | _____      | _____     |
| b. Do any of the other facilities have any open professional liability insurance claims?  | _____      | _____     |
| c. Do any of the other facilities have any open State findings related to instances of actual harm and/or immediate jeopardy (G or higher)? | _____      | _____     |

<<For each “YES” answer above, provide a narrative discussion on the topic describing the risk and how it will be mitigated. Example:

**Other Facilities:**

XXXXX identified XX other facilities it owns, operates, or manages in addition to the subject facility... >>

PROGRAM GUIDANCE: **For other projects/facilities owned, operated, or managed**, the Lender must submit copies of inspection reports for the facilities that have open level “G” or higher citations/deficiencies. The Lender must address any issues/risks associated with the reports and show how they would be mitigated. If no open/unresolved level G or higher deficiencies, this should be stated. Note: If any facility has recent (within last 2 years) resolved “G” or higher citations/deficiencies, the Lender must address this in the Narrative, however, a copy of the report is not required.

**General Review and Findings**

<< Narrative description of review. For example, “The most recent state survey inspections are provided for XX skilled nursing facilities that are owned, operated, or managed by XXXX. The underwriter has reviewed the findings and found....”>>

**Staffing**

<< Narrative description of review. For example, “The appraiser and underwriter have reviewed the proposed staffing to be charged to the facility and found it to be acceptable and within reason....”>>

**Operating Lease**

Date of Agreement: \_\_\_\_\_

Current Lease Term Expires: \_\_\_\_\_

Description of Renewals: \_\_\_\_\_

Current Lease Payment: \_\_\_\_\_

Major Movable Equipment \_\_\_\_\_

Ownership: <<Mortgagor / Operator>> \_\_\_\_\_

## Key Questions

- |   | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| 1. Does the lease contain any non-disturbance provisions?   | _____      | _____     |
| 2. Does the lease require the Mortgagor to escrow any funds other than those associated with this loan? | _____      | _____     |

If you answer "yes" to any of the above questions, please address below.

<<For each "YES" answer above, provide a narrative discussion regarding the topic.>>

## Lease Payment Analysis

The lease payments need to be sufficient to (1) enable the lessor to meet debt service and impound requirements; and, (2) enable the lessee to properly maintain the project and cover operating expenses. The current leases indicate an aggregate rent payment of \$XX per month (\$XX annually) above the payments required by the FHA-insured loan.

The underwriter has prepared an analysis demonstrating the minimum acceptable lease payment.

a. Annual Principal and Interest	\$	-
b. Annual Mortgage Insurance Premium		-
c. Annual Replacement Reserves		-
d. Annual Property & Liability Insurance		-
e. Annual Real Estate Taxes		-
f. Total Debt Service and Impounds	\$	-
g. % of Net Income Available for Debt Service		90.0%
h. Programs Debt Service Coverage		1.111
i. Minimum Annual Lease Payment	\$	-
j. Annual Return on Lease	\$	-
k. Net Operating Income (NOI)	\$	-
l. Adjusted NOI (k+c+d+e)	\$	-
m. Operator's Coverage		#DIV/0!
a. Annual Principal and Interest	\$	-
b. Annual Mortgage Insurance Premium		-
c. Annual Replacement Reserves		-
d. Annual Property & Liability Insurance		-
e. Annual Real Estate Taxes		-
f. Total Debt Service and Impounds	\$	-
g. % of Net Income Available for Debt Service		90.0%
h. Programs Debt Service Coverage		1.111
i. Minimum Annual Lease Payment	\$	-
j. Annual Return on Lease	\$	-
k. Net Operating Income (NOI)	\$	-
l. Adjusted NOI (k+c+d+e)	\$	-
m. Operator's Coverage		#DIV/0!

Field Code Changed

The lease payment as currently proposed in the lease would amount to \$XX (\$XX per year + \$XXX for debt service and impounds). The lease payment should be increased to \$xx per year (\$XXX per month) plus the total debt service and impound amounts required by the FHA-insured loan. The underwriter has included a special condition to the firm commitment requiring the lease payment be revised to meet or exceed this minimum. The recommended annual lease payment also provides the operator with an acceptable profit margin.

## Responsibilities

<<Provide a description of the responsibilities of the Lessor and Lessee under the terms of the lease with regard to the following: payment of real estate taxes; maintenance of building; capital improvements; replacement of equipment; property insurance; etc.>>

## HUD Lease Provisions

Prior to closing, the lease needs to be modified to include the appropriate HUD requirements [outlined in the HUD Operating Lease Addendum](#), including, but not limited to:

1. Contain a restriction against ~~its~~ assignment [or subletting](#) without HUD prior approval;
2. Requires prior written approval by HUD for any modification in bed authority;
3. Requires the lessee to submit financial statements to HUD within [6090](#) days of the close of the facility's fiscal year;
4. Designates the lessee as having the responsibility to seek and maintain all necessary licenses and provider agreements including Medicaid and Medicare.
5. Requires the lessee to submit a copy of the licenses and provider ~~agreement~~[agreements](#) to HUD.
6. Requires the ~~mortgagor/lessor~~[lessee](#) ensure that the facility meets State licensure requirements and standards.

## Accounts Receivable (A/R) Financing

A/R Lender: \_\_\_\_\_

A/R Borrower: \_\_\_\_\_

Current Balance: \_\_\_\_\_

Current Maturity Date: \_\_\_\_\_

A/R Facility List: (list all facilities that are involved with A/R loan, including facility name, location (city/state), and whether or not they are FHA-insured):

## Key Questions

- |   | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| 1. Does the A/R financing require any guarantees from the Owner, Operator, or Parent of the Operator? | _____      | _____     |
| 2. Does the A/R financing involve multiple facilities and/or borrowers?                               | _____      | _____     |

	<u>Yes</u>	<u>No</u>
a. Does the A/R financing involve any non-FHA-insured properties?	_____	_____
b. Does the A/R financing involve facilities located in multiple States and/or HUD jurisdictions?	_____	_____
3. Is there an identity of interest between the A/R Lender and the A/R Borrower?	_____	_____
4. Is there any conflict of interest between the A/R Lender and the Mortgagor or its principals?	_____	_____
5. Does the maximum A/R loan amount exceed 85% of the Medicaid and Medicare accounts receivable less than <b>121</b> days old? (OIHCF Director may approve waiver from 120 days to 150 days if justified. OIHCF HQ must approve waiver over 150 days for special or unique circumstances.)	_____	_____
6. Are more than 30% of Medicaid and Medicare accounts receivable over 90 days old?	_____	_____
7. Does the AR Lender have less than 3 years experience in providing AR financing?	_____	_____
8. Does the AR Lender lack the financial controls and capability to monitor the Operator's performance?	_____	_____
9. Are the Mortgagor and Operator out of compliance with any business agreements with HUD? (i.e., in default on those agreements, not current on financial submissions, etc.)	_____	_____

**For each "YES" answer above, provide a narrative discussion below describing the risk and how it is mitigated:**

**Details on Question 5 & Question 6 above:** Accounts Receivable Aging

	0-90 days	91-120 days	121-150 days	151+ days	% 91+ days
Medicare					
Medicaid					
Other Govt					
Subtotal	\$ -	\$ -	\$ -	\$ -	
Non-Govt*					
Total	\$ -	\$ -	\$ -	\$ -	

\*Non Govt. is not considered when determining HUD's maximum A/R loan amount.

**#DIV/0!** of Medicare, Medicaid, and Other Government A/R less than 121 days old is over 90 days old.

**\$ -** HUD Maximum A/R Loan Amt = 85% of Medicare, Medicaid, and Other Govt A/R 120 or less days old.

A/R Lender Maximum Loan Amount

	0-90 days	91-120 days	121-150 days	151+ days	% 91+ days
Medicare					
Medicaid					
Other Govt					
Subtotal	\$ -	\$ -	\$ -	\$ -	
Non-Govt*					
Total	\$ -	\$ -	\$ -	\$ -	

\*Non Govt. is not considered when determining HUD's maximum A/R loan amount.

**#DIV/0!** of Medicare, Medicaid, and Other Government A/R less than 121 days old is over 90 days old.

**\$ -** HUD Maximum A/R Loan Amt = 85% of Medicare, Medicaid, and Other Govt A/R 120 or less days old.

A/R Lender Maximum Loan Amount

Field Code Changed

## Terms and Conditions

<< Provide a description of pertinent terms and conditions of A/R loan. Also explain the mechanisms for operator receipts, disbursements and control of operator funds>>. [Attach cash flow chart. >>](#)

### Terms and Conditions:

1. Maximum amount of advances available during the term: \$\_\_\_\_\_.
2. Advances are limited to: (describe how maximum advance is determined)\_\_\_\_\_.
3. Term: \_\_\_\_\_.
4. Payment Terms/Fiancing Fees: (Interest Only, etc)\_\_\_\_\_.

Lender Narrative

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Previous versions obsolete

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form HUD-9005-OHP (mm/dd/yyyy)

5. Late Payment Fees:
6. Interest Rate on Unused Line:

#### **Mechanisms for Operator receipts, disbursements and control of operator funds:**

##### **PROGRAM GUIDANCE:**

*Borrower shall maintain and pay for a ~~Lock Box~~ Controlled Account mutually satisfactory to borrower and lender for borrower's cash collections. There shall be no material change in borrower's business or financial condition. There shall be no material default in any of Borrower's obligations under any contract or compliance with applicable laws. Lender shall receive an opinion from borrower's ~~counsel satisfactory to lender.~~ For so long as lender has this loan outstanding to the borrower, lender shall have a first right of refusal to make further loans to the borrower on the same terms and conditions as offered by any other party or operator's counsel satisfactory to lender.*

#### **Collateral / Security**

<< Narrative description of the A/R lender's collateral / security.>>

#### **Permitted Uses and Payment Priorities**

<< Provide a description of the permitted uses and payment priorities of A/R loan funds.>>

##### **PROGRAM GUIDANCE:**

*Attachment C of Notice 08-09, Rider to Intercreditor, para. 3 – states in part the following: (i) first, to pay current debt service obligations to AR Lender, (ii) second, to pay Lessee's costs of operations including, but not limited to, rent and all other payment obligations due under its Lease with Landlord, payroll and payroll taxes, ordinary maintenance and repairs and management fees ("**Current Operating Costs**") and (iii) ~~third~~ after the payment of Current Operating Costs, subject to applicable restrictions in the AR Lender Loan Documents and Lessee Regulatory Agreement, AR Advances may be distributed to Lessee's shareholders, partners, members or owners, as the case may be.*

#### **Costs**

<< Provide a description of the cost of A/R loan. List all fees associated with the A/R financing and indicate whether they are one-time charges or ongoing. Indicate if there any fees associated with unused portion of the loan. Also, provide an analysis demonstrating that the Operator can support the additional financial expenses of the A/R loan. NOTE: A/R loan costs are to be included in the underwritten operating expenses for determining debt service coverage. Identify the total A/R loan costs used in underwriting and the line item on the 92264, which includes this cost.>>

**Historical A/R Loan Costs**  
(total \$)

2006	2007	2008	YTD	2006-2008 Average	UW
2006	2007	2008	YTD	2006-2008 Average	UW

Field Code Changed

### Recommendation

<< Lender's recommendation with regard to acceptance of A/R financing>>

## Mortgage Determinants

### Overview

The mortgage criteria shown on the form HUD-92264-A are summarized as follows:

Fair Market Value:	
Replacement Cost:	TBD
Debt Service:	
Requested Amount:	

The proposed mortgage is \$XX and is constrained by XXX.

### Mortgage Term

A mortgage term of 40 years.

### Type of Financing

The type of financing available to the mortgagor upon issuance of the commitment will likely be in the form of XXXX.

### Fair Market Value Limit

The \$XX fair market value limit was calculated in accordance with HUD guidelines. This is based on x% of the underwriter's value of \$X. No deductions for ground leases, grants or loans, excess unusual site improvements, cost containment, or special assessments are applicable to this project. *Note: If the Loan to Value exceeds the Lean Benchmarks summarized in the February 19, 2010 Email Blast, justification/mitigation of the additional risk to HUD must be addressed in the Risk Factors section of this narrative.*

### Replacement Cost Limit

To be determined at final submission. The mortgage will not exceed 90% of the HUD Replacement Cost.

### **Debt Service Limit**

The \$XX debt service limit was calculated using HUD's guidelines. This is based on x% of the underwriter's net operating income of \$X, interest rate of XX% and a XX-year term. The proposed mortgage is constrained by XXXXX; therefore, the underwritten debt service coverage is XX, which is X% of the estimated net operating income for debt service and MIP payments.

**Note: If the Debt Service Coverage Ratio is less than 1.45, justification/mitigation of the additional risk to HUD must be addressed in the Risk Factors section of this narrative.**

### **Deduction of Grants, Loans, and Gifts (Criterion 11)**

The Criterion 11 limit was calculated in accordance with HUD guidelines as follows:

a.	Total Estimated Replacement Cost of Project as Depreciated	\$ _____
b.	(1) Grants/loans/gifts	_____
	(2) Tax Credits	_____
	(3) Value of Leased Fee	_____
	(4) Excess Unusual Land Improvement Cost	_____
	(5) Unpaid Balance of Special Assessment	_____
	(6) Sum of Lines (1) through (5)	\$ _____
c.	Line a. minus line b. ()	\$ _____

The secondary sources are discussed in detail below in the Sources & Uses section of the narrative.

#### **Program Guidance**

The grants, loans, gifts, and tax credits to be deducted under Criteria 11 are those credits for FHA mortgageable cost only. Sources for non-mortgageable cost are not included in the Criterion 11 calculations and are also not reflected in any of the other criterion on Form HUD-92264-A. The sources and uses statement provided by the mortgagor should outline all mortgageable and non-mortgageable costs and the source(s) to fund each.

### **Sources & Uses**

<<Provide a statement of Sources and Uses of actual estimated cost at closing. Include all eligible and ineligible costs.>>

#### **Secondary Sources**

<<List and discuss all secondary sources, including terms and conditions of each. Secondary sources include Surplus Cash Notes, Grants/Loans, Tax Credits, and the like. Demonstrate compliance with HUD limits on private sources. Remember that Criterion 11 is applicable to mortgage sizing.>>

#### **Program Guidance**

##### Government Sources

- a. Secondary financing, grants and tax credits from a Federal, State, or local government

agency or instrumentality, may be used to cover up to 100% of the applicable Section of the Act equity requirement.

- b. Secondary financing, grants, and tax credits from a Federal, State or local government agency or instrumentality, may also be used to finance non-mortgageable costs. Such funds covering non-mortgageable cost, when added to the HUD mortgage and required equity contribution may exceed 100% of the project's Fair Market Value (FMV) or Replacement Cost.
- c. Subordinated liens against the property that result from secondary loans from a Federal, State or local governmental agency or instrumentality to cover non-mortgageable costs and/or equity, in combination with HUD's primary lien, may exceed 100% of the property's FMV or Replacement Cost.
- d. Non-mortgageable costs or non-HUD replacement cost items, covered by secondary loans, grants and tax credits must be certified by the source provider to be required to complete the project and that the related costs are reasonable. Documentation to this effect must be included with the application submission.

#### Private Sources

- 1. Secondary financing in the form of a promissory note is permitted to cover a portion of the equity requirement under Section 223(f). The aggregate amount of the FHA insured first loan and the private second loan cannot exceed 92.5% of FMV. Therefore, the amount of a private loan may range from 7.5% of FMV (the difference between 85% and 92.5% of FMV) to a larger percentage if a mortgage criterion is lower than 85% of FMV controls. This rule also applies to Sections of the Act that are pursuant to Section 223(f), i.e., Section 232 pursuant to Section 223(f). However, this allowance should not be used to circumvent our existing policies which do not permit equity take-out on Section 232 refinance transactions or on purchase transactions, a way to finance costs that otherwise would not be permitted. For example, seller take backs on property acquisition costs that are not supportable by market data should not be approved.
- 2. When private secondary financing is combined with Federal, State or local government agency secondary financing, like in #1 above, the aggregate amount of the HUD insured first loan and the private second loan cannot exceed 92.5% of FMV. However the governmental loan, in aggregate with the HUD first and private second, may exceed the property's FMV. The addition of the governmental loan may result in total liens that exceed the property's FMV.
- 3. Private secondary financing may be used to cover nonmortgageable costs in combination with equity or solely for one purpose or the other. Whatever option is decided upon, as stated under #1 above, the aggregate of the HUD first and private second cannot exceed 92.5% of FMV.
- 4. Non-mortgageable costs or non-HUD replacement cost items, covered by secondary financing from private sources must be certified to be reasonable and required to complete the project by the provider of sources in documentation included with the application submission.

### **Other Uses**

<<Discuss any Uses not previously discussed in this narrative.>>

### **Special Commitment Conditions**

A. <<List all recommended special conditions. If none, state "None.">>

### **Conclusion**

<<Narrative conclusion and recommendation>>

### **Signatures**

Lender: \_\_\_\_\_

HUD Mortgagee Number: \_\_\_\_\_

This report was prepared by:	Date	This report was reviewed by:	Date
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_____ <<Name>> <<Title>> <<Phone>> <<Email>>	_____ <<Name>> <<Title>> <<Phone>> <<Email>>
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## End Notes